

**DEPARTMENT OF  
RAIL AND PUBLIC TRANSPORTATION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2000**



## **AUDIT SUMMARY**

Our audit of the Department of Rail and Public Transportation for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider a reportable condition; however, we do not consider this matter to be a material weakness;
- no instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards; and
- inadequate implementation of corrective action on prior year audit findings.

Our audit finding entitled “Establish Procedures to Bill for Contract Costs” is explained in the section, “Internal Control Finding and Recommendations.”

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January 18, 2001

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Rail and Public Transportation** for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Rail and Public Transportation's internal control, and test compliance with applicable laws and regulations. We also reviewed Rail and Public Transportation's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Rail and Public Transportation's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures	Allocations
Revenues	Performance Measures

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Rail and Public Transportation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Rail and Public Transportation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that Rail and Public Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Rail and Public Transportation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Rail and Public Transportation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled, "Establish Procedures to Bill for Contract Costs," is described in the section entitled, "Internal Control Finding and Recommendations." We believe that the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported finding, "Establish Procedures to Bill for Contract Costs." Accordingly, we included this finding in the section entitled "Internal Control Finding and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

#### Report Distribution and Exit Conference

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on February 5, 2001.

AUDITOR OF PUBLIC ACCOUNTS

DBC:kva  
kva:43

## INTERNAL CONTROL FINDING AND RECOMMENDATIONS

### Establish Procedures to Bill for Contract Costs

The Department of Rail and Public Transportation still does not have adequate procedures to track and bill the Department of Transportation (Transportation) for project costs. As of June 30, 2000, Transportation owed Rail and Public Transportation \$3,615,686 for work completed before June 30, 1999. Rail and Public Transportation performs work for Transportation on pass-through grants to localities and planning consulting projects identified in Transportation's Virginia Transportation Development Plan (VTDP) for which they receive partial reimbursement from Transportation. However, Rail and Public Transportation still has not established procedures that would enable them to obtain reimbursement from Transportation causing receivable balances to rise. As a result, Rail and Public Transportation continues to use and tie up Mass Transit funds to support these projects and, in some cases, is not paying the contractors involved in the projects.

Rail and Public Transportation should work to identify the projects within the VTDP that relate to the past due receivables in order to obtain reimbursement from Transportation. For the future, Rail and Public Transportation should initiate written contracts with Transportation, setting out its project responsibilities and establishing billing procedures. In addition, Rail and Public Transportation should continue to develop a crosswalk that details how its projects relate to the projects in the VTDP. This will enable Rail and Public Transportation to bill Transportation and receive prompt reimbursement.

## AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Department of Rail and Public Transportation reports to the Secretary of Transportation and the Commonwealth Transportation Board, which provides policy oversight. Rail and Public Transportation seeks to establish, maintain, improve, and promote public transportation services and passenger and freight rail transportation systems.

### Funding Sources

Rail and Public Transportation has three primary sources of revenue:

#### Highway Maintenance and Operating Fund

Rail and Public Transportation received \$4,665,531 from the Highway Maintenance and Operating (HMO) Fund in fiscal year 2000. HMO funds pay for a portion of Rail and Public Transportation's administrative costs.

#### Mass Transit Fund

Rail and Public Transportation received \$99,389,884 from the Transportation Trust Fund (TTF) in fiscal year 2000. The Commonwealth uses TTF funds for highway and port construction and maintenance, mass transit, and air travel. Rail and Public Transportation receives 14.7 percent of the TTF funds for mass

transit with the remainder going to the Departments of Transportation and Aviation and the Virginia Port Authority. Rail and Public Transportation uses its portion of the TTF as follows:

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses. Areas receive payments in advance either quarterly or monthly.
- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance received. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations.
- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance.

#### Federal Highway, Railroad, and Transit Administration Funds

Rail and Public Transportation also received \$11,179,956 in funding from the Federal Highway, Railroad, and Transit Administrations during fiscal year 2000. Rail and Public Transportation uses the federal revenues to support localities' and transportation organizations' mass transportation programs, freight rail programs, and special transportation need programs for the elderly and disabled.

The following table illustrates Rail and Public Transportation's revenues in the Mass Transit Fund, the Highway Maintenance and Operating Fund, and the Federal Fund for the last three years.

	<b><u>FY 1998</u></b>	<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>
Mass Transit	\$56,608,651	\$96,514,612	\$99,389,884
Highway Maintenance and Operating	39,535,561	7,264,923	4,665,531
Federal	10,627,343	8,307,976	11,179,956

Federal revenue has remained fairly level since fiscal year 1998. However, fiscal year 1999 showed a sharp increase in the Mass Transit Fund while showing a sharp decrease in the Highway Maintenance and Operating Fund. This change in funding reflects a legislative change in the allocation. For fiscal year 1999, the General Assembly increased the Mass Transit Fund's percentage of the Transportation Trust Fund by 6.1 percent. In fiscal year 2000, the General Assembly increased the percentage by 0.2 percent, bringing the total funds allocated to 14.7 percent. Conversely, in fiscal year 1999, the General Assembly decreased the funding from the Highway Maintenance and Operating Fund, which in future years is to fund only Rail and Public Transportation's administrative needs.

#### Virginia Transportation Act of 2000

The Virginia Transportation Act (VTA) creates the Priority Transportation Fund, a special non-reverting fund and a component of the Transportation Trust Fund. Any monies remaining in the Fund at the end of each fiscal year will not revert to the general fund but will remain in the Fund. Rail and Public Transportation, along with the Department of Transportation, shall use the monies in the Fund solely to facilitate the financing of priority transportation projects throughout the Commonwealth.

The following table shows the rail and public transportation projects included in the listing of Priority Transportation Projects under VTA 2000.

<b><u>District</u></b>	<b><u>VTA Projects Administered by DRPT</u></b>	<b><u>Total Cost*</u></b>
Bristol District	Bristol Rail Capital Costs	\$ 9,339
Fredericksburg District	High Speed Rail Capital Costs	18,225
Hampton Roads District	Eastern Shore Railroad	6,600
NOVA District	Dulles BRT/Rail Capital Costs	75,000
	High Speed Rail Capital Costs	29,225
	VRE Express Service Capital	10,000
	Metrorail Rolling Stock Replacement	45,000
	Metrorail Parking Expansion	26,000
	Metrorail Ballston Station Improvements	5,000
Richmond District	High Speed Rail Capital Costs	<u>18,225</u>
	Statewide Totals	<u><u>\$242,614</u></u>

\* in thousands



DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION  
Richmond, Virginia  
As of June 30, 2000

Shirley J. Ybarra, Secretary of Transportation

Leo J. Bevon, Director of Rail and Public Transportation

COMMONWEALTH TRANSPORTATION BOARD

Shirley J. Ybarra, Chairman

Leo J. Bevon	Lorinda G. Lionberger
Roy Parrish Byrd	L.C. "Sonny" Martin
S. Grey Folkes, Jr.	H. Carter Myers, III
John H. Grubb, Jr.	Max B. Porter
Benjamin R. Humphreys, Jr.	William W. Prettyman
J. Kenneth Klinge	Kevin M. Sabo
Bryan E. Kornblau	Olivia A. Welsh

Ulysses X. White